

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1765 – SB 2013

March 21, 2011

SUMMARY OF BILL: Creates franchise and excise tax credits for any employer considered a subchapter S or a subchapter K business under federal tax law that hires a new employee, provided the new employee was receiving unemployment benefits prior to being employed. The franchise and excise tax credit shall equal 35 percent of wages paid, provided the wage paid is between \$10 and \$12 per hour; 40 percent of wages paid, provided the wage paid is between \$12 and \$14 per hour; and 50 percent of wages paid, provided the wage paid is more than \$14 per hour. Requires qualified employers to provide at least 12 consecutive months of employment for such new employees, and pay wages for no less than 37.5 hours per week. Establishes carry-forward provision, up to five years, when total tax credits exceed tax liability. Authorizes the Commissioner of Revenue to promulgate rules and regulations.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Exceeds \$81,427,100

Assumptions:

- According to the Department of Revenue (DOR), there are 72,143 firms in Tennessee that are taxed under subchapters S or K of the Internal Revenue Service (IRS) code.
- DOR indicates that approximately 49,628 will be required to file franchise and excise tax returns due to pre-deduction tax liabilities exceeding \$100.
- According to DOR, and based on the National Small Business Association 2010 Year-End Economic Report, approximately 25 percent of small businesses will hire new employees over the next 12 months.
- The number of qualified businesses will be 12,407 (49,628 x 25%).
- At least one new employee per qualified business.
- Given 50 weeks of work per year, 37.5 hours per week, and a minimum wage of \$10 per hour, the total franchise and excise tax credit relative to one additional employee will be \$6,563 [(50 x 37.5 x \$10) x 35% tax credit].
- The recurring decrease in state revenue will exceed \$81,427,141 (12,407 qualified businesses x 1 employee x \$6,563 tax credit).

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CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

/rnc